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March 22, 2012

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WASHINGTON, D.C. UPDATE ON HOUSE BUDGET COMMITTEE'S FEDERAL FISCAL YEAR 2013 BUDGET RESOLUTION

On March 21, 2012, the House Budget Committee approved a Federal Fiscal Year (FFY) 2013 budget resolution which would significantly reduce Federal spending over the next ten years on a 19 to 18 vote. Similar to the President's Proposed FFY 2013 Budget, this budget resolution generally mirrors budget proposals from last year, and is largely a political document, which does not have any chance of being adopted this year. As indicated in previous Washington, D.C. updates, it is all but certain that Congress will defer final action on FFY 2013 appropriations and other major budget issues, such as the possible extension of the expiring Bush tax cuts, to a "lame duck" session after the November elections.

The purpose of the annual budget resolution is to set non-binding spending and revenue targets to guide Congressional action on fiscal legislation, including appropriations and tax legislation. Adoption of the budget resolution requires joint approval by both houses. A budget resolution has not been approved by both houses since FFY 2010 when that year's budget reconciliation bill was used as the vehicle for enacting health care reform. Senator Majority Leader Reid has indicated that the Senate will not pass a budget resolution this year. Therefore, budget reconciliation legislation, which cannot be filibustered in the Senate, cannot be used to enact spending cuts in entitlement programs, such as Medicaid. The House Budget Committee's budget resolution includes reconciliation instructions to cut mandatory (entitlement) spending by more than $260 billion over the next ten years.

Highlights of FFY 2013 House Budget Resolution

The House Budget Committee's FFY 2013 budget resolution, which also is commonly called the Ryan budget plan after the Committee's Chairman Paul Ryan (D-WI), would cut spending by $5.3 trillion more than the President's Proposed FFY 2013 Budget in FFYs 2013 through 2022. The largest budget savings over this ten-year period in the budget resolution, compared to the President's Proposed Budget, would come from:

- Repealing the 2010 health care reform law ($1,572 billion savings);
- Replacing the current open-ended Medicaid entitlement with a block grant in which Federal funding to states is capped ($810 billion savings;
- Reducing net Medicare spending by $205 billion;
- Reducing other mandatory spending by $1,895 billion;
- Reducing overall discretionary spending by $352 billion; and
- Reducing net Federal interest payments on debt service by $514 billion.

Other major provisions of County interest in the budget resolution include:

- Converts the Supplemental Nutrition Assistance Program (SNAP), which was formerly called Food Stamps, from an open-ended entitlement for needy individuals into a state block grant, indexed for inflation and eligibility beginning in 2016, with work participation requirements for beneficiaries;
- Replaces the overall FFY 2013 discretionary spending limit of $1.047 trillion, which was adopted under the Budget Control Act (BCA) of 2011, with a spending limit of $1.028 trillion, which is $19 billion lower;
- Reduces overall non-security discretionary spending in FFY 2013 by $27 billion below the level set under the BCA while increasing overall defense spending by $8 billion;
- Replaces BCA-mandated sequestration spending reductions with budget reconciliation instructions to reduce mandatory program spending;
- Calls for the consolidation of employment and training programs;

- Provides workers who currently are under the age of 55 with the option of receiving premium support payments to help Medicare beneficiaries buy private health insurance in lieu of traditional Medicare fee-for-service coverage, beginning in 2023; and

- Reforms the tax system by reducing the top income tax rate to 25 percent with a lower tax bracket of 10 percent while scaling back tax credits, tax deductions, and other tax breaks ("tax expenditures).

Potential Impacts of Budget Resolution on the County

If enacted into law, the House Budget Committee's FFY 2013 budget resolution would result in a major loss of Federal revenue to the County and a major increase in net County costs, especially for the County's health, mental health, and In-Home Supportive Services (IHSS) costs, which are financed by Medicaid. This is mainly because the budget resolution calls for deep cuts in Medicaid and other mandatory programs, which account for most of the County's Federal revenue.

Similar to last year's House budget resolution, the County would be affected the most by the proposed repeal of health care reform and block granting of Medicaid at funding levels, which would be significantly less than would be otherwise provided under current law. The number of Medicaid eligible persons in the County would be directly reduced by the repeal of Affordable Care Act's Medicaid coverage expansions. Future Medicaid block grant funding would be indexed for changes in population and the Consumer Price Index for Urban Consumers, both of which are likely to grow far less than future Medicaid financing needs. If such a block grant had been in effect in 2000, Federal Medicaid spending would have grown by 36.35 percent between FFYs 2000 and 2010, which was far less than the actual 97.50 percent growth in Federal Medicaid spending.

California would be especially hurt by the block granting of Medicaid because the State receives far less Federal Medicaid funding per recipient than any other state. This means that California's initial base block grant funding also would be low relative to other states. The increased flexibility that a Medicaid block grant would provide the State of California also would greatly increase the likelihood that the State would respond to the loss of Federal Medicaid revenue by reducing payments to providers, the scope of covered services, and/or Medicaid/Medi-Cal eligibility – all of which would shift costs to counties and hurt the County and its residents who rely on County-provided services. Moreover, if Medicaid is converted into a block grant, it is highly unlikely that states would continue to be required to make Disproportionate Share Hospital payments to safety net hospitals, such as the County's.

A detailed analysis of the fiscal and programmatic impacts on the County of the House Budget Committee's FFY 2013 Budget Resolution is not possible because it lacks details on how most of its proposed spending reductions would be met. For example, the budget resolution sets non-binding spending targets for the overall budget and broad budget functions, such as defense, and does not include proposed funding levels for individual programs. Funding levels for individual discretionary programs, such as the State Criminal Alien Assistance Program, Workforce Investment Act, Community Development Block Grant, and Ryan White AIDS programs, will be set later in annual appropriations bills. The budget resolution also does not specify how spending will be reduced under individual mandatory spending programs, which include Temporary Assistance for Needy Families, Title IV-E Foster Care and Adoption Assistance, and Child Support Enforcement, which are major Federal revenue sources for the County.

Legislative Outlook

The House is expected to pass the House Budget Committee's FFY 2013 budget resolution next week. However, as noted earlier, Senate Majority Leader Reid has indicated that the Senate will not pass a budget resolution, and it is all but certain that Congress will defer final action on FFY 2013 appropriations and other major budget issues, such as tax provisions which expire at the end of 2012, to a "lame duck" session after the November elections.

Moreover, the House is expected to use its overall FFY 2013 discretionary spending limit of $1.028 trillion in drafting its FFY 2013 appropriations bills while Senate Democratic leaders have indicated that they will use the higher FFY 2013 discretionary spending limit of $1.047 trillion, which was enacted under the BCA last year. This increases the likelihood that Congress will enact few, if any, of the 12 individual FFY 2013 appropriations bills before October 1, 2012 when FFY 2013 begins. To avoid a Federal government shutdown, Congress will have to enact a Continuing Resolution to temporarily fund Federal operations and programs.

We will continue to keep you advised.

WTF:RA
MR:MT:er

c: All Department Heads
Legislative Strategist